Australian Sustainable Finance Institute

How elements of Australia's climate architecture combine to enable private capital flows for climate mitigation

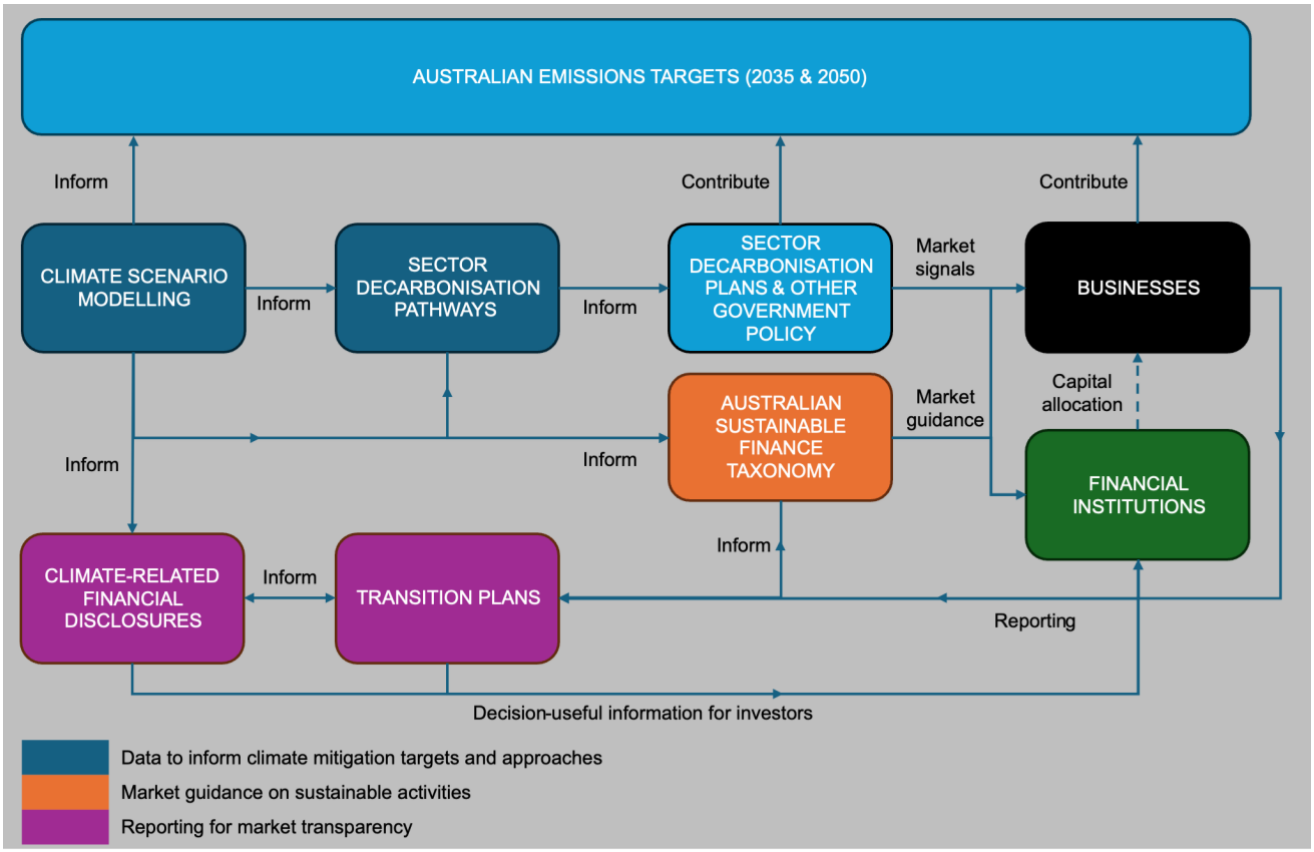
Overview

Australia's climate policy architecture has evolved rapidly over the past four years. While not developed systematically, it is now coalescing to create the key building blocks for Australia's energy transition. They include climate scenario modelling, sector-specific decarbonisation pathways, sector decarbonisation plans and a Sustainable Finance Taxonomy to define aligned economic activities.

This paper articulates how each component supports the system, noting that the ambition and coverage must continue to build over time to reach the scale of capital required for addressing Australia's climate-related challenges and opportunities.

Modelling and sector pathways

Figure 1: Relationship of key initiatives to support national emissions targets



Credible climate decarbonisation scenario modelling underpins all other elements of the Australian sustainable finance system. Several mutually consistent models are utilised, including:

- Commonwealth Scientific and Industrial Research Organisation (CSIRO) scenario for 1.5-degree rapid decarbonisation, Climateworks Centre's Australian 1.5-degree scenario and the International Energy Agency's Net Zero Emissions (NZE2050) scenario, utilised by the Australian Sustainable Finance Taxonomy; and

- CSIRO AG40/G1.5 and AG50/2 scenarios, utilised by the CCA Sector Decarbonisation Pathways and Australian Sustainable Finance Taxonomy.

All Australian scenarios employ the AusTIMES modelling methodology, which downscales the IEA's TIMES model to the Australian context. They act as the reference point for the Australian Climate Change Authority (CCA) Sector Decarbonisation Pathways Review, which recommends technology options to support the least-cost decarbonisation of six prioritised sectors:

- Agriculture and land;
- Built environment;
- Electricity and energy;
- Industry and waste;
- Transport; and
- Resources

The climate scenario modelling (CSIRO and Climateworks Centre) and Sector Decarbonisation Pathways (CCA) underpin two of the key tools to mobilise public and private finance in the Australian system – Sector Decarbonisation Plans, and the Australian Sustainable Finance Taxonomy. Both are focused on the six prioritised sectors covered by the Sector Decarbonisation Pathways.

Sector Decarbonisation Plans

The Sector Decarbonisation Plans recently released by the Australian Government articulate a suite of government policies, laws and programs that incentivise the uptake of technologies and transformation of sectors as outlined in the Sector Decarbonisation Pathways (CCA), leading to emissions reductions in line with sectoral and national targets.

By collating all the policy measures and government incentives by sector, they will also enable private capital to make better assessments of which sectors and activities government policy will support.

Australian Sustainable Finance Taxonomy

The taxonomy provides the most practical and targeted support for private capital to identify and allocate capital towards activities that will support Australia's 2050 climate targets. It translates the modelling and sector pathways into clear definitions and technical screening criteria for the activities that are already green (i.e. aligned to a 1.5-degree pathway) or needed for the transition of Australia's economy, and that have a role in a post-2050 net zero economy.

The taxonomy is the tool that translates Australia's sector decarbonisation pathways into investment opportunities for financial institutions. Following release in June 2025, it is currently being piloted by several financial institutions, with 10 being supported by ASFI in their implementation. It is being used by financial institutions to:

- Structure green bonds for corporate, sovereign and sub-sovereign entities;
- Assess portfolio alignment;
- Improve credibility of internal sustainable finance or climate frameworks;
- Support corporate client transition; and
- Structure new green financial products, particularly in sectors like mining and agriculture.

Climate-Related Financial Disclosures

Commencing in 2025, a new climate-related disclosure requirement in the Corporations Act requires large Australian business and financial institutions to report on their climate-related risks and opportunities.

These disclosure requirements and supporting Australian standards (AASB S2) are aligned with international standards (IFRS S2), ensuring that Australian firms are also able to meet international reporting requirements concurrently. On 1 July 2026 and then 1 July 2027, the reporting requirements will be extended to two additional cohorts of smaller entities, thus increasing coverage across the Australian economy.

As one of the first markets to adopt the IFRS standards, this regime will ensure that Australian companies and financial institutions are able to demonstrate the integrity of their climate mitigation efforts. Such disclosures will support their competitiveness for sustainable finance in local and international capital markets.

The taxonomy supports entities to validate the credibility of their climate-related claims, by demonstrating the alignment of capex, revenues or portfolios with Paris goals.

Transition Planning

The Australian Government is currently developing guidance on best practices for climate-related transition planning. Entities can use these plans to identify forward-looking strategies to address the climate-related risks and opportunities identified through their disclosure reporting, which provides valuable information for potential investors and lenders.

The guidance document is structured to align with:

- The International Financial Reporting Standards Foundation (IFRS) Transition Planning Taskforce Disclosure Framework;
- IFRS S2 climate-related disclosure standards, to which the Australian Accounting Standards Board (AASB) S2 standards closely align; and
- A broad range of other domestic and international resources and materials covering climate-related transition planning; environmental and social; and climate-related financial disclosure reporting regimes.[1]

[1] Australian Treasury - see particularly Appendix A (2025).

Taxonomies are increasingly recognised in global frameworks (e.g. IRFS, GFANZ, SBTi, ICMA) as a consistent, comparable, and decision-relevant benchmark to assess the credibility of transition planning and disclosures.

The Australian taxonomy can be used as a metric to support entities to understand their current exposure to transition risk and opportunity, set transition goals through capital investments in climate-related opportunities aligned to the taxonomy, and track progress against those goals. As such, it can support high quality transition planning and preparation of credible corporate transition plans.

Using taxonomy alignment to support transition planning can:

- Provide a forward-looking and transparent measure of alignment with the Paris Agreement decarbonisation goals that can apply across all sectors and activities covered by the taxonomy;
- Allow differentiation from competitors on a credible basis;
- Reduce greenwashing risk by providing an objective measure to validate green claims; and
- Support access to capital from investors and lenders who are increasingly seeking to ensure investees/borrowers have in place credible transition plans.

Conclusion

A systems approach is critical to create momentum for economy-wide decarbonisation. The Australian reforms have been implemented in stages, gradually responding to demand from financial institutions, businesses and investors to address the most important regulatory and policy levers.

Australia is now moving closer towards a comprehensive ecosystem: grounded in credible and rigorous decarbonisation modelling, guided by the taxonomy and sector plans, and supported by climate disclosures and transition planning.

This interconnected framework will position Australia to mobilise private capital towards its economic transformation, and achievement of national emissions targets.